

# ***Headquarters U.S.A.F.***

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***Integrity - Service - Excellence***

## **Procurement**

# **Transformation**

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## **Overview**



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**Dan E. Bowman**

**Chief, Procurement  
Transformation**

**Deputy Assistant Secretary  
(Contracting)**

**Assistant Secretary (Acquisition)**

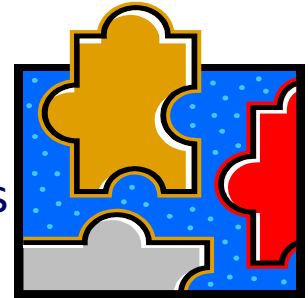
**17 November 2003**



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# The “Commander’s Intent” of Procurement Transformation

- Strategic Sourcing
  - Exploit industry best practices & technology to leverage AF spend
  - Commodity Councils
    - IT commodity council (May 03)
    - AFMC Purchasing and Supply Chain Mgt activities
- Agile Policy
  - Field policy that enables good business decisions
    - AFFARS re-write, DFARS re-write, AFI and Guide Review
    - Prepare our people to execute
- People
  - Developed to meet challenges of an agile, e-enabled environment
  - Shaped to ensure a viable future workforce



*An agile procurement system which leverages Air Force purchasing power to provide desired capabilities*



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# ***Why We Need to Transform AF Procurement***

- **Procurement/Acquisition must evolve with global operational doctrine & CONOPS**
- **Current processes are NOT broken, but we can do SIGNIFICANTLY better**
  - **Reduce our Business-Cycle times**
    - **Better meet customer expectations**
  - **Leveraging our dollars to gain advantage**
- **Improvements limited by current business and IT architecture**
  - **Must change the underlying model / foundation**
- **Requires revolution in thinking and action**
  - **Cross organization/functional, enterprise wide integration**
  - **Benchmark industry standard practice**

***"The whole world steps aside for the man who knows where he is going."***

***-Anon.***



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# Roots of Transformation and eBusiness Revolution

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- **Oct 2001-President George Bush's Management Council selected 24 eGovernment projects to move the U.S. Government toward a more efficient electronic government**
  - **Goals of Integrated Acquisition Environment:**
    - **Create a simpler, common, integrated business process for buyers and sellers that promotes competition, transparency and integrity.**
    - **Increase data sharing to enable better business decisions in procurement, logistics, payment and performance assessment.**
    - **Take a unified approach to obtaining modern tools to leverage investment costs for business related processes.**
- 

*Air Force Contracting - Expeditionary-Agile-Innovative*



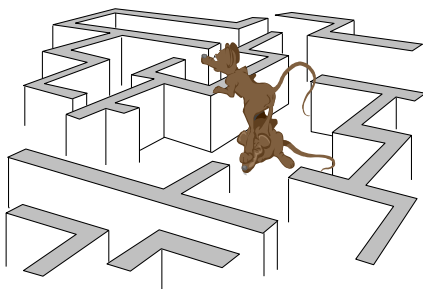
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# e-Environment



***Geography Doesn't Matter***



***Organizational Structure Doesn't Matter***



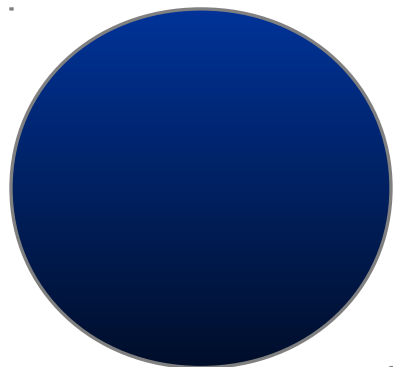
***Time of Day Doesn't Matter***



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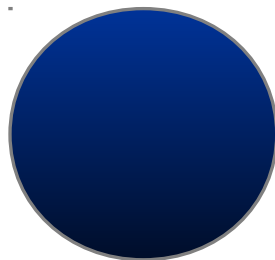
# ***e-World***

***Access software  
using a Browser?***



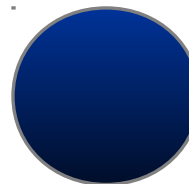
**e-Enabled**

***Is it useful  
for your mission?***



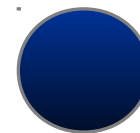
**e-Business**

***Will  
funds change  
hands?***

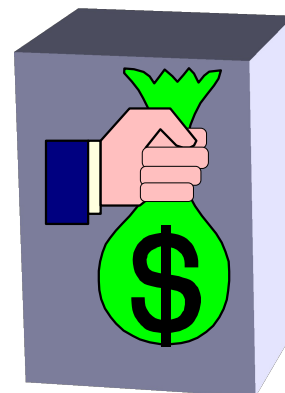


**e-Commerce**

***Will services or  
supplies change  
hands?***



**e-Procurement**

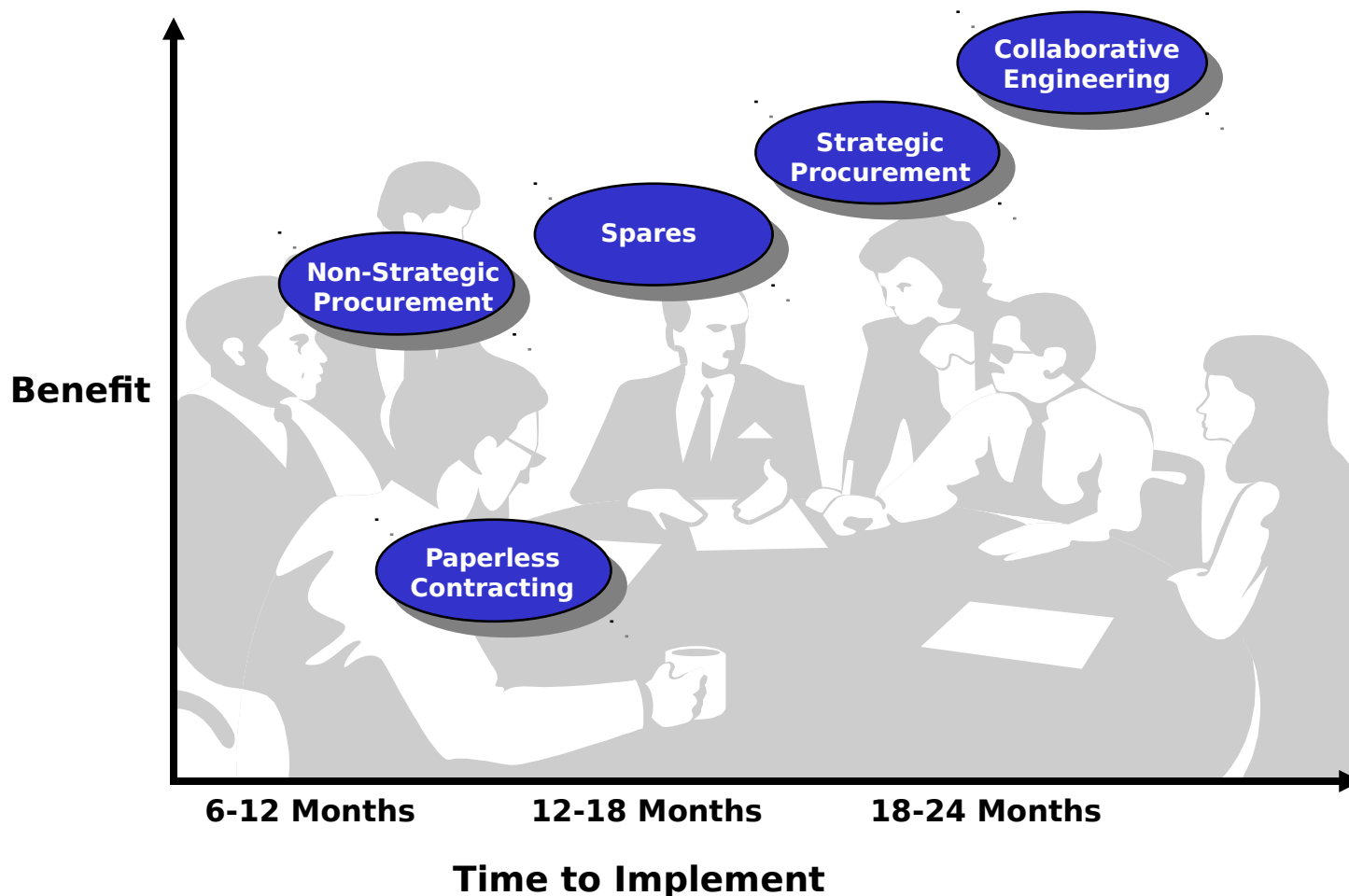


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# Industry Perspective on Value





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# What Motivates Change?

Industry innovation directly effects the  
bottomline

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

Government innovation directly effects the  
customer

$$\text{Enhanced Warfighter Capabilities} = \text{Available Resources} - \text{Cost}$$

***The AF must leverage its “buying power” to enhance the warfighters needs.***





# The Case for Change

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**Every year DoD leaders struggle to do more with less**

- **“the re-capitalization rate for military facilities is 192 years”** - Rep Jim Saxton 2003 Defense Budget Hearing
- **“when development began USAF intended to purchase 648 F-22 aircraft . . now we hope to field 330”** - F/A 22 Program Info Sheet
- **“the maintenance backlog for the military departments was \$1.2 billion at the start of FY 00”** -DoD IG Audit Unfunded Depot Maintenance Requirements, 2001
- **“the QDR force is simply not affordable at the budget levels proposed for FY 01-10 . . .there will be little choice left but to make additional personnel cuts, force structure reductions, and spending cuts in defense re-capitalization and modernization programs”** - Adequacy of the defense budget, 8 Feb 2000



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# Not Optimizing Our Multi-Billion Dollar Buying Power

## Who Buys

| Organizations<br>(Top Five by Dollars) | \$<br>Millions | Buying<br>Organization |
|--|----------------|------------------------|
| Lockheed Martin Corp                   | \$10,010       | 88                     |
| The Boeing Company                     | \$8,388        | 81                     |
| Raytheon Corp                          | \$2,332        | 75                     |
| Northrop Grumman Corp                  | \$2,155        | 124                    |
| United Technologies Corp               | \$1,680        | 32                     |

**NOT BUYING AS ONE ORGANIZATION**

Source: RAND analysis of FY02 data

## What We Buy

| FSC<br>(Top Five by # Contracts) | \$<br>Millions | #<br>Contracts |
|----------------------------------|----------------|----------------|
| Maintenance / Misc Buildings     | \$224          | 450            |
| RDTE / Defense Applied Research  | \$304          | 443            |
| Maintenance/Office Buildings     | \$157          | 354            |
| Office Furniture                 | \$98           | 352            |
| Gas Turbines and Jet Engines     | \$2,058        | 328            |

**NOT CONTRACTING AS ONE ORGANIZATION**



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# Commercial Industry Success

- 'Economies of Scale' widely-accepted method of cost saving
  - 'Volume leverage' is #1 strategy for purchasing cost reduction
  - Avg. purchase cost reduction goal for manufacturing firms = 12%

Purchasing Magazine, 10 Oct 02

- Not a new concept
  - Advocated by Purchasing & Supply Chain Management initiative within AF's Spares Campaign
  - Farming co-ops, distributors, 3PLs, consortiums, etc.
  - In 1997, 20% of Fortune 500 firms participated in consortiums, garnering 13.4% savings and a 767% ROI

CAPS Research, 1997

- It's about combining individual needs to gain leverage
  - The same way your personal finances benefit from consolidation!
    - e.g., mutual funds, 401Ks, Costco, Sam's Wholesale, 12-pack vs. 6-pack, etc.



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# Transformation Begins with Changing Behavior

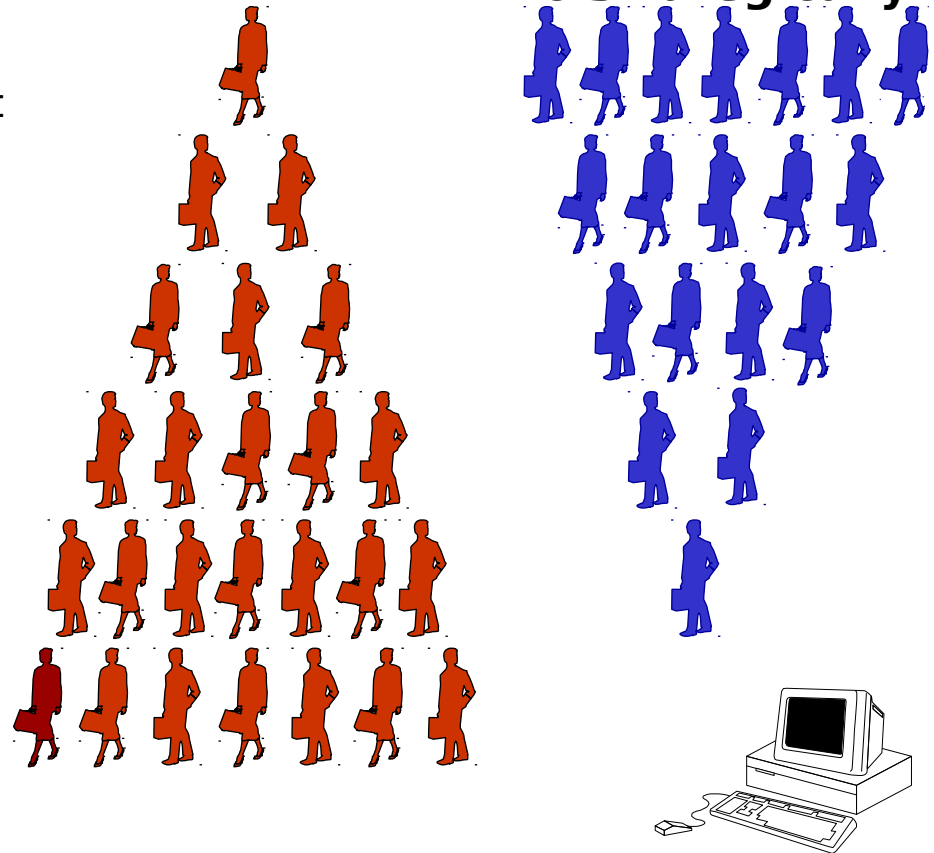
**Strategic**

**Activities**

Market knowledge  
Supply base management  
Commodity strategy  
Risk management  
Sourcing strategy  
Supplier capability assessment  
Strategic negotiation  
Supplier selection  
Supplier development  
Establish performance metrics  
Supplier performance evaluation/reporting  
Commercial (tactical) negotiation  
Order processing

**Tactical**

**From transactional to strategically focused**

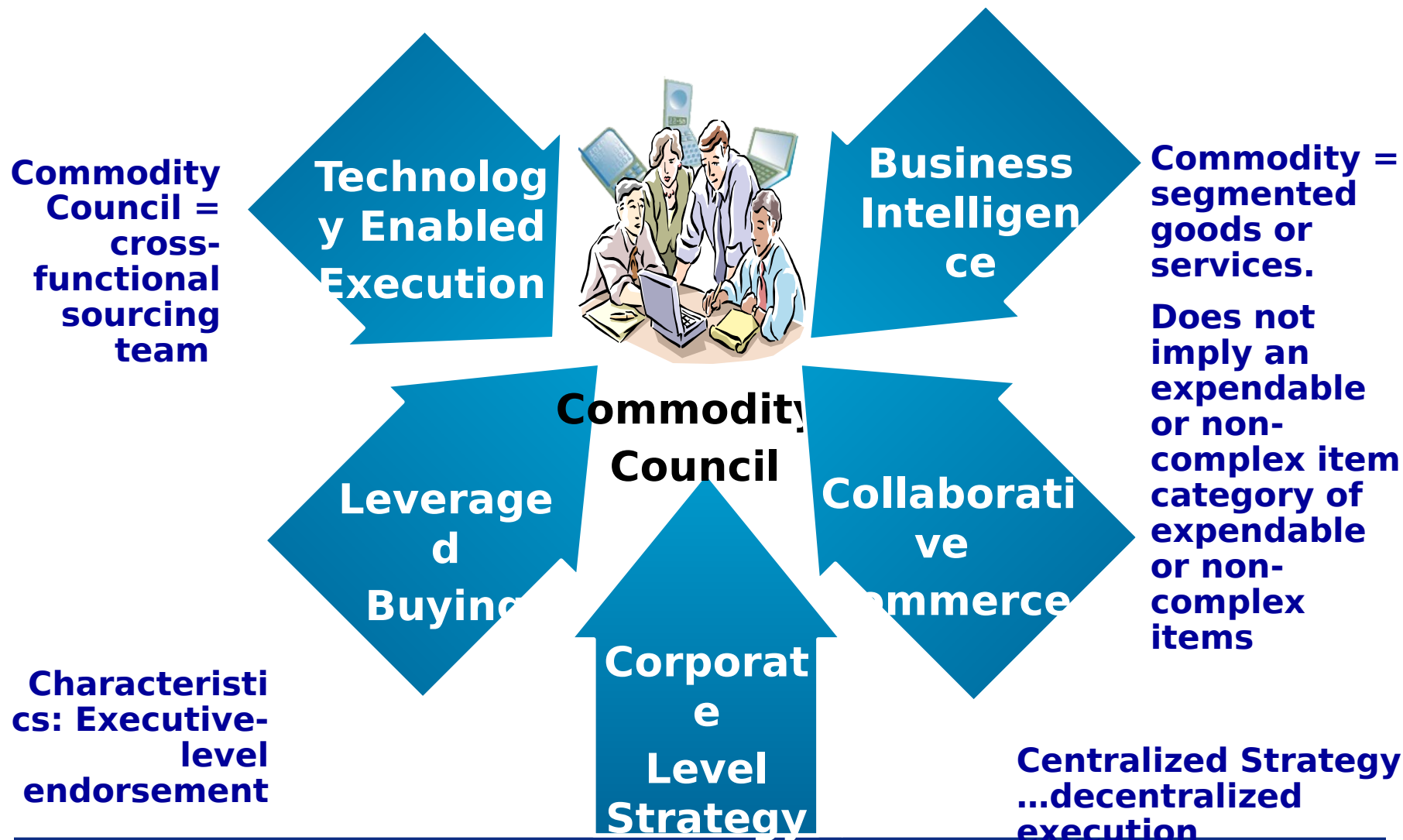


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# How We get there!



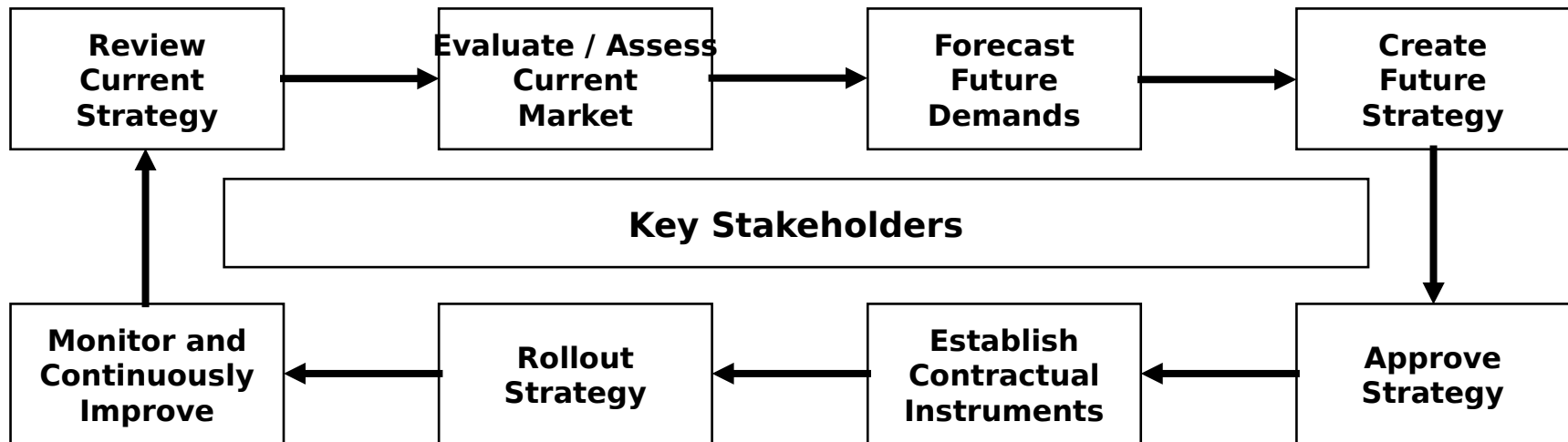


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# Commodity Council Process Overview

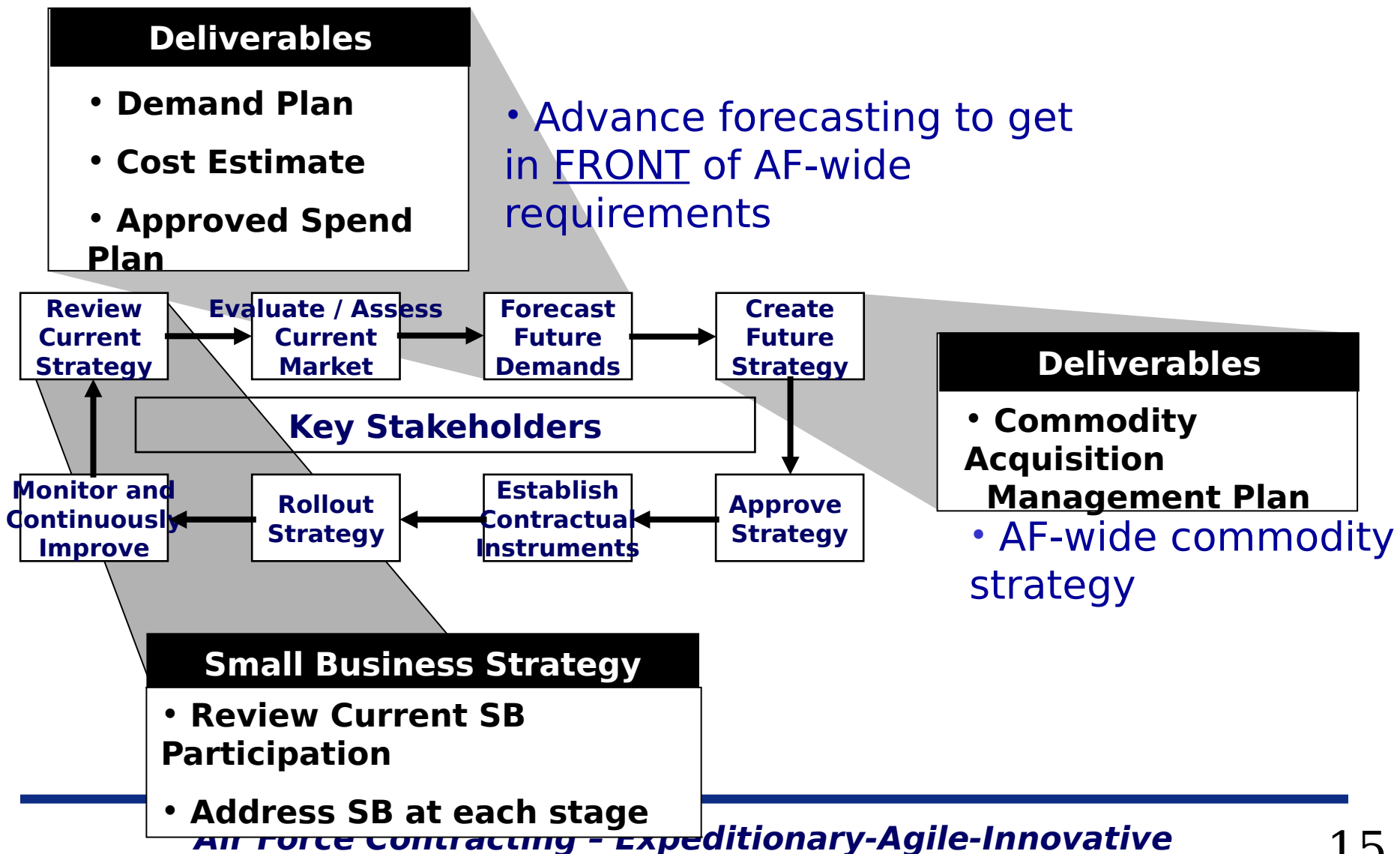
Each Commodity Council will have adequate cross-functional representation and will utilize a standardized process

## Commodity Council Process





# What's Different?



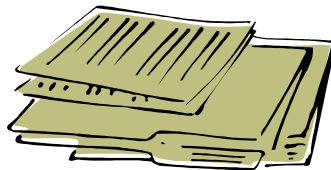
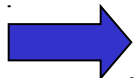


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# Typical Process - Scenario A



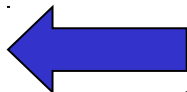
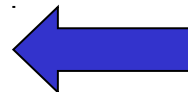
Bob identifies a need for tape and paperclips



Sally issues a Purchase Order



Time passes....



And then to Bob

The tape and paperclips are delivered to the base....

Time: XX hours to process, XXX Days to Deliver

Cost: \$XXX (including human resources)



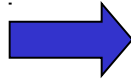
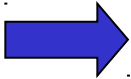


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# Typical Process - Scenario B



**Bob identifies a need for tape and paperclips.**



**Bob gets in his car and drives to the Office Superstore**



**Bob purchases tape and paperclips with his Government Purchase Card**

**Time: X hours**

**Cost: \$XX/Transaction**

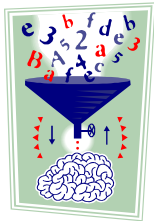


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# New and Improved Process: Planning for the Need



Sally is a member of the  
Office Supply Commodity  
Council



Business  
Intelligence is  
collected



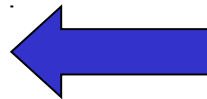
The contracts are available  
on AFeBuy.mil



The Council researches the tape and  
paperclip market and analyzes the  
business intelligence on an ongoing  
basis



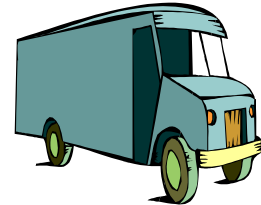
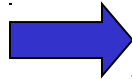
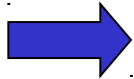
The Council negotiates tape and  
paperclip contracts with large and  
small businesses for an average  
savings of 15%





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# **New and Improved Process: Meeting Bob's Need**



**Bob identifies a need  
for tape and  
paperclips.**

**Bob logs on to AFeBuy.mil  
and purchases tape and  
paperclips.**

**The tape and  
paperclips are  
delivered to  
Bob**

**Time: X minutes**

**Cost: \$X/Transaction**



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# Strategic Sourcing: What we have done

## ■ Strategic Sourcing - we told you we would establish Information Technology Commodity Council (IT CC) and we did

- IT CC Stood-up on 21 July 2003
- IT CC - cross-functional team made up largely of MAJCOM personnel
- Accomplishments to Date:
  - Developed enterprise-wide procurement strategies
  - Coordinated Air Force Bulk Buys for End of Fiscal Year 2003
  - Bought 12,500 new PCs at thirty percent discount





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# Strategic Sourcing: PSCM Charter

**We are committed to actively lead and support the Purchasing and Supply Chain Management (PSCM) and Depot Maintenance transformations. Our leadership will be evident by:**

- ☐ Active leadership and guidance
- ☐ Visible Support
- ☐ Investments that mirror the transformation strategy
- ☐ Personal time and interest

**We are committed to fundamentally changing our business processes through these guiding principles:**

- ☐ Enterprise-wide leverage (Standard processes, technology, organization structure, skills)
- ☐ Centralized Commodity-focused sourcing
- ☐ Collaborative relationships with Customers and Strategic Suppliers
- ☐ One Supply System that is responsive to customers
- ☐ Well trained and educated workforce that is flexible, multi-skilled and sustains continuous improvement
- ☐ Top-down strategic planning processes
- ☐ Single Balanced Scorecard with alignment of responsibility, authority and accountability
- ☐ Information technology that provides accurate, timely data

**Signatures:**

General Lester Lyles Commander AFMC

Dr. Stewart HQ AFMC/CD

Maj. Gen. Gabreski HQ AFMC/LG

Maj. Gen. Sullivan OO-ALC/CC

Mr. Miner OO-ALC/CD

Mr. Wells HQ AFMC/PK

Lt. Gen. Coolidge HQ AFMC/CV

Mr. Dunn AF/IL

Maj. Gen. Johnson OC-ALC/CC

Brig. Gen. Faykes HQ AFMC/FM

Mr. Conner OC-ALC/CD

**July 25, 2003**

Lt. Gen. Zettler AF/IL

Mr. Williams SAF/AQC

Maj. Gen. Wetekam, WR-ALC/CC

Mr. Davis WR-ALC/CD

Ms. Walker HQ AFMC/LG

Mr. Koenig HQ AFMC/LG





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# Strategic Sourcing: Where we are headed



- Strategic sourcing will continue
  - Exploring candidates for future commodity council
    - Office Supplies
    - Medical
    - Security Forces
    - Construction
    - Services
- Further pursue our procurement transformation roadmap
  - Strategic planning activities
    - Reestablish contracting strategy board
    - Validate the vision & plan to get us there
  - Need to improve communication so we are all driving towards the same end state
- Change management

***“Never underestimate the power of inertia to hold you hostage to where you used to be.” - Dr. Tushman***



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# Commodity Council Pilot IT Commodity Council Update

- IT CC quick win - EOY Buy
  - Image Consolidation
  - Configuration simplification
  - 12,500 computers instead of 10,000 for the same dollars spent

*“the Air Force bought computers at a 30 percent discount by buying in bulk . . . And it’s a strategy that we plan to use more” John Gilligan AF CIO*



***“Give me a lever long enough and I can move the world”***

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**- Archimedes**

**Air Force Contracting - Expeditionary-Agile-Innovative**





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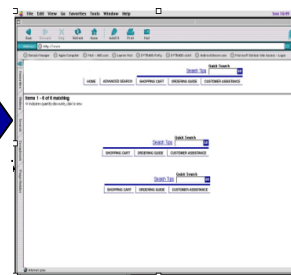
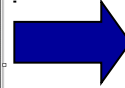
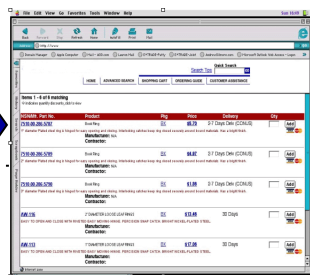
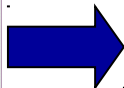
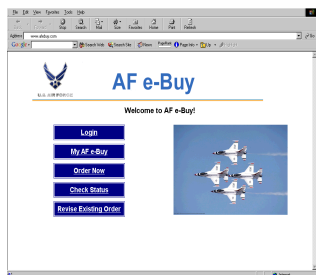
# What Tools Are We Going to Provide? AFeBuy.mil

**AFeBuy.mil processes Joe's order including required approvals for his keyboard and solvents and notifies Joe when to expect delivery**

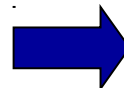
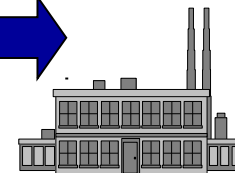
Joe uses his PDA to log into AFeBuy.mil

Joe in Mx HAZMAT, Pharm, Eq Cust, etc.

Joe in Mx Sq



Supplier



**"It's on the way!"**





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# Turning Data into Information

**Grainger**  
**GSA Advantage**  
**Office Depot**  
**Etc.**

**AFWay**  
**DoD Email**  
**CONS**



- How much you send
- What you purchase
- From whom you purchase
- How often you purchase
- Length of contract/supply relationship
- Competitiveness of supply base
- Stability of supply base

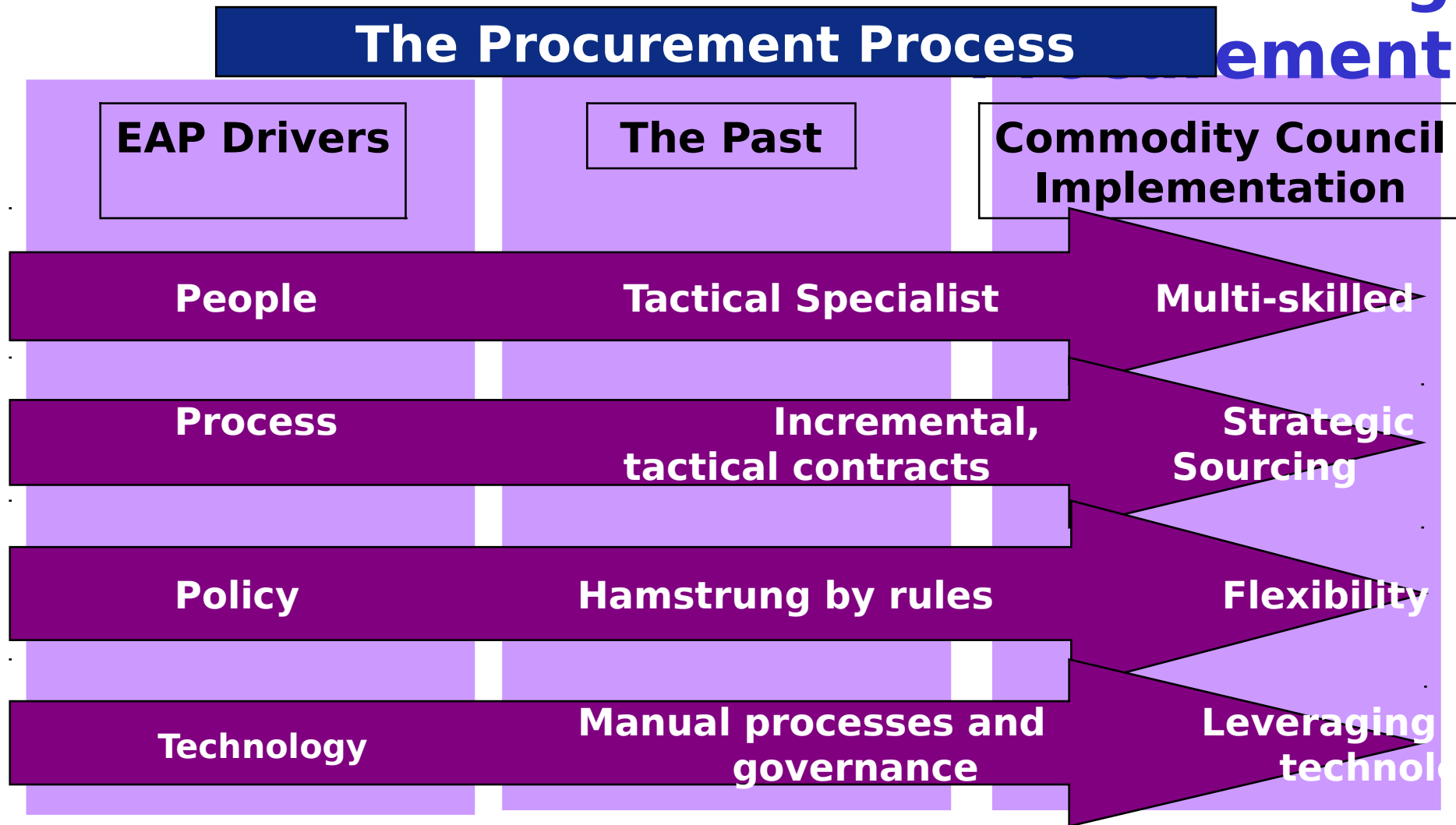


**Enables Long Term Strategic Agreements**



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# Enterprise Architecture Procurement - Transforming The Procurement Process

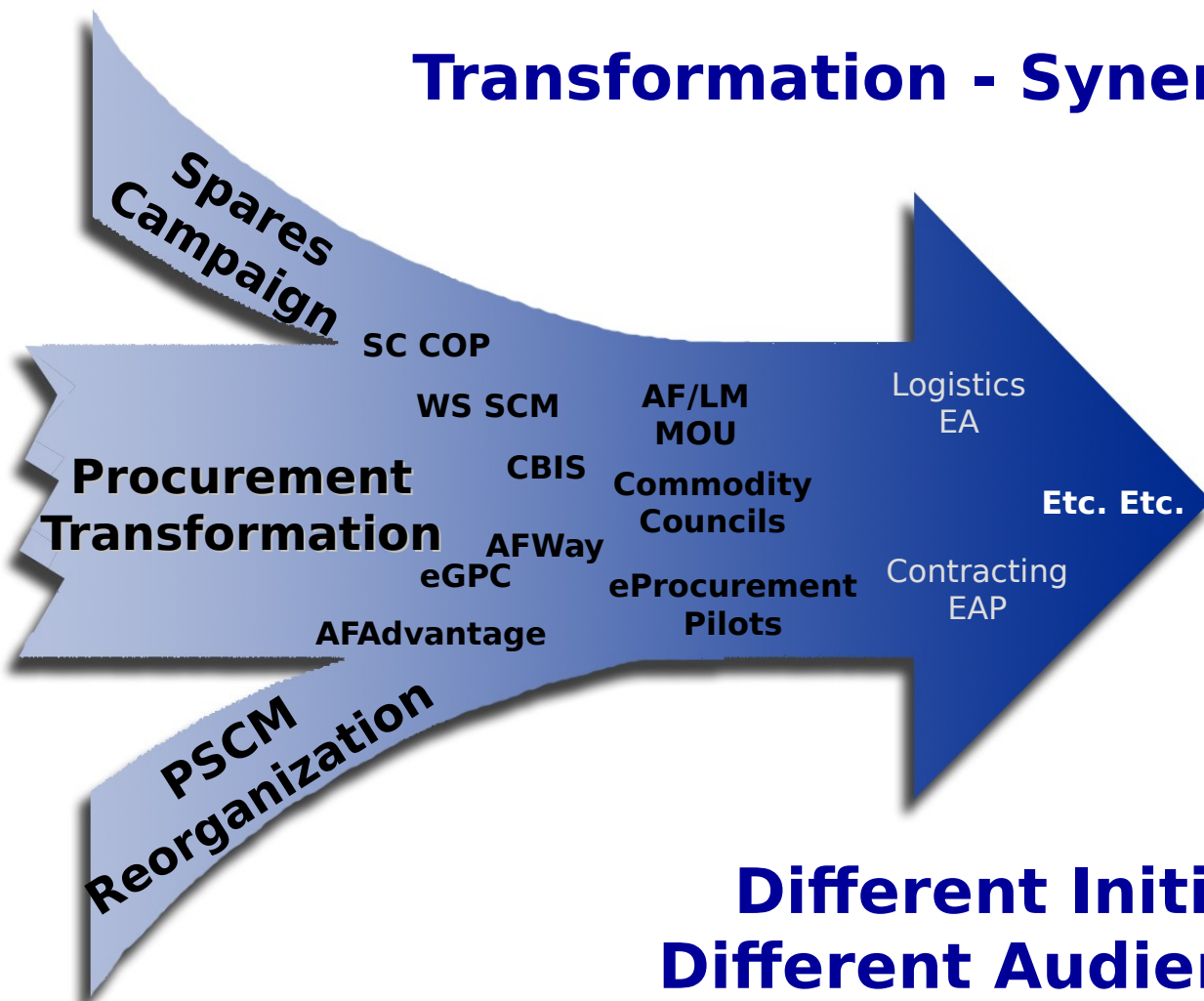




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# Building the AF Enterprise

## Transformation - Synergy of Efforts



- Improve customer support
- Reduce purchase cost of items
- Increase quality of goods and services
- Accelerate delivery responsiveness

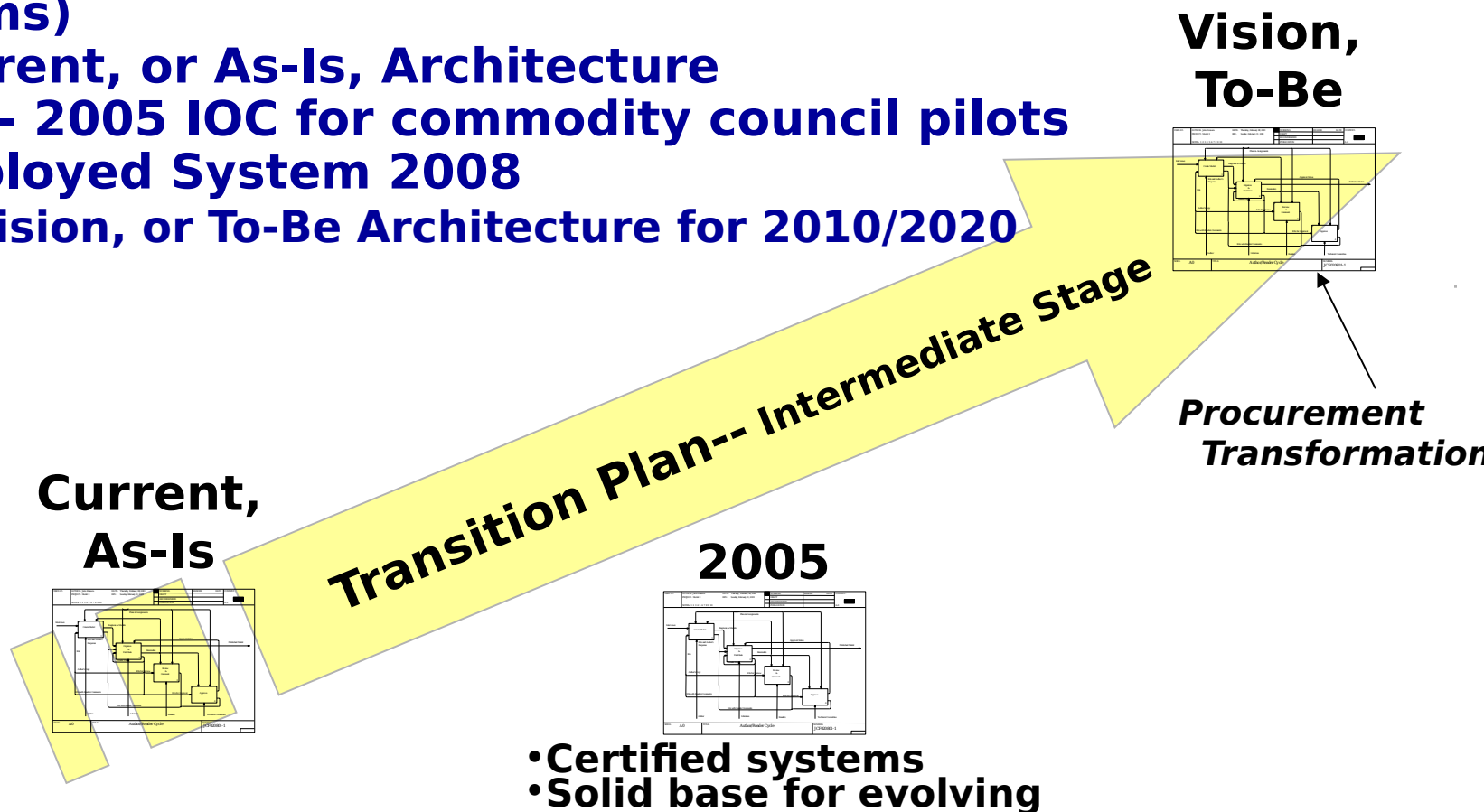
**Different Initiatives . . .  
Different Audiences . . . But  
Shared Objectives**



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# AFeBuy is coming!

- **EAP — Needed Baselines (for the Contracting Systems)**
  - **Current, or As-Is, Architecture**
  - **Mid- 2005 IOC for commodity council pilots**
  - **Deployed System 2008**
    - **Vision, or To-Be Architecture for 2010/2020**





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# Summary

- **Procurement Transformation:**
  - Aligns Policies, Processes, People, and Technologies
  - Is necessary to support the warfighter
- **By leveraging spend, the AF can better utilize its limited resources**
- **Commodity Councils are cross-functional sourcing teams with MAJCOM representation who are:**
  - Utilizing standard processes
  - Charged with implementing contracting vehicles to better leverage spend and manage supplier relationships
- **The Enterprise Architecture for Procurement (EAP) provides a roadmap for transforming the processes and IT infrastructure**  
***The AF must leverage its “buying power” to meet the warfighters needs.***



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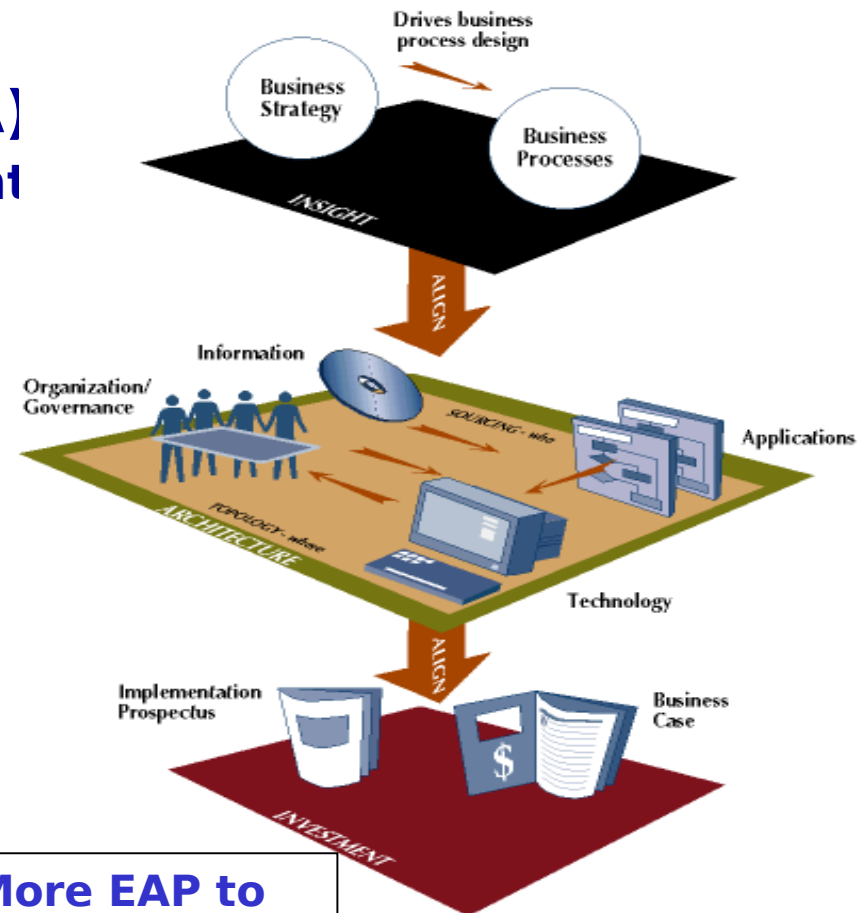
# Back- up



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# We'll get there by using an Architecture

- **Vision / Strategy**
- **Operational Architecture (OA)**
  - Policy (Constraints / Requirement)
  - Processes (Organization)
  - People (Resources)
- **Systems Architecture (SA)**
  - Enabling Technology
    - COTS and Legacy
  - Mapping of Systems to OA
  - Data Layer
- **Transition Plan (TP)**
  - Courses of Action (COAs)
  - Implementation Governance



More EAP to  
come . . . . .



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# The Leverage Opportunity



***“Give me a lever  
long  
enough and I can  
move the world”***

| Product Type<br>(FY 03 Data) | AF Average<br>Cost Per Unit<br>“No<br>Leverage” | Archimedes                                       |   |
|------------------------------|---|--|---|
|                              |   | Medical<br>Services<br>Leveraged<br>Quantity Buy | AFACF<br>Leveraged<br>Multi-year<br>Buy |
| Desktops                     | \$1200  | \$1024   | \$1090                                  |
| Laptops                      | \$2127  | \$1591   | \$1947                                  |





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# What is Procurement Transformation?

- Alignment of Policies, Processes, People, and Technologies in support of an overall **Procurement Vision**
  - Exploit industry best practices & technology to leverage AF spend
- **Strategic** vs. Tactical Purchasing
- Training and **People Development**
  - Geared towards e-enabled strategic procurement
- Streamlined and **Flexible Policy**
  - Must support AF transformation objectives & foster considered risk taking
- ***An agile procurement system which leverages Air Force purchasing power to provide desired capabilities***



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# **Commodity Council Overview**

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**'Commodity' = segmentable category of goods or services**

- **Does not imply an expendable or non-complex item**

**'Commodity Council' = cross-functional sourcing team**

- **Develop enterprise-wide procurement strategies**
- **Integrate customers and suppliers into procurement process**
- **Drive commonality and standardization**
- **Leverage purchasing volume**

**Characteristics of a Commodity Council:**

- **Executive-level endorsement**
- **Well-informed and market savvy commodity experts**
- **Centralized strategy . . . decentralized execution**



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# Process & Governance

## *What's different about ITCC?*

### Pre-ITCC

### ITCC

#### **User Participation**

development

membership in ITCC

- No involvement with strategy

- MAJCOM & Air Staff

#### **Strategy and Execution**

- Decentralized Strategy (each Base/MAJCOM does their own)

- One group does strategy & execution

(Self-service strategy but all located at SSG)

- Strategy group and execution group are separate entities

- Centralized AF Strategy (each

#### **Compliance**

direction to use vehicles and

- No requirement to use strategy or contracts

comply with standards

- AF-CIO & SAF/AQC policy

#### **Order Execution**

Decentralized Execution

- Decentralized Ordering

- Centralized Control—

#### **Data/Info Usage**

Analysis

- No AF Spend Analysis

- Spend, Market, and Inventory

#### **Strategy Approval**

(AF-CIO &

SAF/AQC)

- SSG or ESC

- Shared CSO Authority

#### **Contract Approval**

**Execution**

- Unclear & varied

- Streamlined and consistent

- IT2 SAMP controls

- with strategy approval process



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# How Do We Manage It?

## The ITCC Model



### Infostructure Architecture Council

- Standards
- Architecture
- Potential Standards
- Preferred Products

AFWAY = Interim solution for purchasing IT hardware, software, services

### eBusiness Tool

- Web-enabled front-end
- Gathers business intelligence
- Allows eOrdering from pre-existing agreements



Standards

Assessment / Opportunities



### IT Commodity Council

- Technical / Product Forecast
- Assess AF needs
- Develop ACQ Strategy
- Recommend to CIO EXCOM



### Commodity Strategy Official

- AF-CIO & SAF/AQC

**Direction**

**Air Force Contracting - Expeditionary-Agile-Innovative**